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POLICY DIALOGUE AND DISCUSSION ON IMPORTANT DEVELOPMENTS IN THE WORLD ECONOMY AND INTERNATIONAL ECONOMIC COOPERATION WITH HEADS OF MULTILATERAL FINANCIAL AND TRADE INSTITUTIONS OF THE UNITED NATIONS SYSTEM

Statement submitted by the International Chamber of Commerce, a non-governmental organization in consultative status with the Economic and Social Council, category I

The Secretary-General has received the following statement which is circulated in accordance with paragraphs 23 and 24 of Economic and Social Council resolution 1296 (XLIV) of 23 May 1968.

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* E/1993/100.

The International Chamber of Commerce remains concerned that in 1993 the recovery of the world economy continues to be weak, fragile and uneven. Debt deflation as a legacy of the 1980s is proving a protracted process: It has unfortunately coincided with a massive increase in global investment needs to finance economic reform in eastern Europe, the former USSR and the development needs of many countries of the South, as well as to begin the process of cleaning up the world's environment.

There are, however, several encouraging developments: the continuing recovery in North America; the enduring buoyancy of many developing countries; positive signs that reforms in some eastern European economies are beginning to bear fruit; and significant reductions in inflation in a large number of countries. In addition, real interest rates have been falling steadily in Europe in the first half of 1993; in Japan, a second large fiscal stimulus package announced in April should -- allied to low interest rates -- boost domestic demand and contribute to lowering the country's large trade surplus; and the new U.S. Administration is trying to make progress towards reducing the large federal budget deficit.

Close policy co-ordination, at least among the major economies, is vital if an interdependent world economy is to function well. Increasingly, a global approach is necessary to tackle major problems like poverty, the environment, unemployment, structural adjustment, debt, and emigration.

To take but one of these problems, the ICC is deeply concerned by the high level of unemployment in the world economy which, throughout successive business cycles, has been on a sharply upward trend since the mid-1970s and which in recent years has become a major cause of protectionist sentiment. Though statistics for the developing countries are patchy and unreliable, it is patently clear that the combination of rapid population growth and poor economic performance during the 1980s across most of the poorer regions of the globe has created a huge and deepseated problem.

In parallel, the OECD has projected that unemployment in the industrialized countries will reach nearly 36 million by the end of this year. And within the industrialized world, it is in the European Community that high structural unemployment is at its most chronic -- exacerbated at the present time by high interest rates, weak confidence, exchange rate turbulence, and uncertainties about the Maastricht Treaty, all of which are retarding economic recovery.

We believe that the following factors militate against job creation and must be tackled on a broad front:

- **high interest rates** associated with high public sector budget deficits;

- **excessive regulation** and taxation of business activity, and especially small business creation;

- **rigid labour laws** and practices which inhibit a variety of forms of employment contract and which afford employees excessive protection against dismissal;

- the **distortion of pay differentials** by inflexible and unrealistic statutory minimum wages;

- **high non-wage labour costs** imposed on companies by fiscal and social security laws;

- **ill-designed social security systems** which demotivate and discourage unemployed people from re-entering the work force;

- **inadequate investment** in education, training and life-long re-training to meet the continuously evolving skill requirements of modern economies; and

- **housing policies** which inhibit geographic mobility.

More generally, a collective international medium-term strategy for growth and employment in 1994 and beyond is required. The strategy should, *inter alia*, look to:

- agreement on a far-reaching market access package covering manufactured goods, agriculture and services within the context of the Uruguay Round, with the firm aim of successfully concluding the Round before the end of this year on the basis of the Draft Final Act submitted by the GATT's Director General in December 1991;

- improved market access for the exports of developing countries and economies in transition to help them pay their way in the world and to encourage them to persevere with painful and politically sensitive reforms;

- reining back the apparently inexorable rise in structural government budget deficits, and improving the productivity and cost-effectiveness of the public sector;

- complementing sound macro-economic policies with "supply side" reforms which improve the functioning of product, labour and financial markets;

- improving co-ordination of the wide variety of bilateral and multilateral assistance being extended to eastern Europe and the republics of the former USSR;

- working closely with business to evolve cost-effective and market-based policies and techniques to achieve environmental goals, recognizing that flexibility is essential in a rapidly-changing commercial and technological climate, and in view of the uncertain scientific data about many of the world's environmental problems.

In its latest **World Economic Outlook**, the IMF observed that the medium-term economic prospects of the developing countries appear brighter than for decades. After growing by an

average 6 percent last year, the economies of the developing world are projected by the Fund to expand by 5 per cent in 1993 and 1994, accelerating to an average of almost 6 per cent in 1995-1998. Certainly, these averages mask a widely diverging performance between countries and regions, with Asia setting the pace and Africa trailing behind. But, in an encouraging note, the IMF foresees an increasing convergence of growth rates in the years ahead across the developing world -- with Africa also showing steady progress -- as more and more countries implement market-oriented economic reforms and the debt problem recedes.

The continued success of economic reforms in the developing world depends in large part, however, on a favorable external environment. A principal factor will naturally be the pace of economic recovery in the industrialized countries. But equally vital will be the determination of the latter to help meet the growing investment needs of the developing world and to improve market access for the exports of poorer countries.

Market access -- and particularly for products in which they have a comparative advantage -- is essential to enable developing countries to meet their debt obligations and to demonstrate to domestic constituencies that the abandonment of long-standing import policies is positively recognized by the industrialized countries.

There are signs that the recession has bottomed out in eastern Europe, and in some cases of the beginnings of recovery. Among countries reaping the rewards of courageous structural reform are the Czech Republic, Hungary and Poland, where economic output is beginning to revive and inflation has eased. However, apart from financial aid, the countries of eastern and central Europe need above all to realize their export potential. Though rapid surges in low-cost imports can create disruption, it is essential that the industrialized countries maintain open access to their markets for goods in which the economies in transition have a comparative advantage.

The economic picture is more somber in Russia and most other former Soviet republics. Russia is by far the largest economy to attempt the transfer to a market economy system. The sheer scale of the problems it faces makes solutions much harder than elsewhere. Nevertheless, significant progress has been made in the space of two years.

Business, therefore, welcomes the financial aid programs put in place by the IMF and other international lending institutions and the recent decisions of G7 countries to increase multilateral and bilateral support to the Russian Federation. It urges that lending policy be focused to help the peoples of the former communist nations help themselves. Aid, too, should be carefully targeted so that it reaches sectors where it can do most good and is most urgently needed -- examples are the improvement of food storage and food processing facilities. The ICC also believes that the republics of the former Soviet Union could all benefit from a greater common effort to re-establish trading relationships among themselves.

Political stability, an improved communications infrastructure, and a secure body of modern commercial law are vital to accelerate the build-up of foreign investment in Russia and the NIS -- just as they are vital to encourage the growth of domestic private-sector business. To this end,

the ICC has sent legal and trade experts to Moscow and other capitals to advise governmental authorities on the training of appropriate legislation. In addition, in co-operation with the growing number of business organizations within the former USSR which have obtained or are seeking ICC membership, we are carrying out technical assistance training programmes in such areas as commercial arbitration, environmental management, trade techniques, marketing, and the running of chambers of commerce.

In sum, while there are hopeful signs, both with respect to economic activity and policy direction, the world economy continues to face formidable problems which must be addressed if recovery is to develop the necessary scope, depth and strength.